

**INFORMATION TECHNOLOGY:  
Treasury's Continued Progress In Achieving  
Compliance With The Federal Financial  
Management Improvement Act**

**OIG-03-025**

December 12, 2002



**Office of Inspector General**

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**The Department of the Treasury**

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## Abbreviations

ACE	Automated Commercial Environment
CFO	Chief Financial Officer
Customs	United States Customs Service
DCFO	Deputy Chief Financial Officer
FFMIA	Federal Financial Management Improvement Act of 1996
FMS	Financial Management Service
IRS	Internal Revenue Service
Mint	United States Mint
OCC	Office of the Comptroller of the Currency
OIG	Office of Inspector General
OMB	Office of Management and Budget
SGL	United States Government Standard General Ledger
TIGTA	Treasury Inspector General for Tax Administration
Treasury	Department of the Treasury

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*The Department of the Treasury  
Office of Inspector General*

Barry K. Hudson  
Acting Deputy Chief Financial Officer

The Office of Inspector General's (OIG) Annual Audit Plan for Fiscal Year 2002 included the planned audit, *Treasury's Progress In Achieving Compliance With the Federal Financial Management Improvement Act*. The Federal Financial Management Improvement Act of 1996 (FFMIA) requires that "in general, each agency shall implement and maintain financial management systems that comply substantially with Federal financial management system requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger (SGL) at the transaction level." In addition, FFMIA requires that the OIG report whether the Department of the Treasury's (Treasury) financial management systems are in substantial compliance with these general requirements, as part of the annual audit of the Department's financial statements pursuant to the Chief Financial Officers Act and the Government Management Reform Act.

The objective of this audit was to determine if the Department provided adequate oversight to the bureaus, whether remediation plans were developed, and whether milestones for material non-conformances were achieved. Overall, we found that the Department provided significant guidance to the bureaus, enabling bureaus to develop remediation plans to address material non-conformances. In addition, the Department obtained and reviewed remediation plans to determine if corrective actions were reasonable and if milestones were being achieved. We evaluated the remediation plans submitted to the Deputy Chief Financial Officer (DCFO) by the United States Customs Service (Customs), the Financial Management Service (FMS), the United States Mint (Mint), and the Office of the Comptroller of the Currency (OCC). In

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addition, we relied on the Treasury Inspector General for Tax Administration's (TIGTA) review of the Internal Revenue Service's (IRS) remediation process. A more detailed description of our objective, scope, and methodology is provided in Appendix 1.

## Results in Brief

Treasury has made significant progress in achieving compliance with FFMIA to correct and resolve deficiencies with its financial management systems. For FFMIA material non-conformances reported by Treasury as of September 30, 2001, we identified that remediation plans were developed and milestone dates were established. Further, bureaus were meeting milestone dates established in remediation plans. We also noted that the Department was providing adequate oversight for bureaus' remediation processes. For instance, both the Department and the OIG found that corrective action milestone dates for Customs non-conformance were extended because funding was insufficient. Once the lack of funding was noted, the Department discussed this extension with the Office of Management and Budget (OMB) and with Customs to determine the appropriateness of the extension. We also found that the Department can continue to strengthen its remediation process.

We coordinated our audit efforts with TIGTA regarding IRS' FFMIA process. The TIGTA review of the IRS' remediation plans detailed no instances of missed target dates. However, target dates were extended with explanation.

Our report includes recommendations that, in our opinion, will assist Treasury in continuing to strengthen its oversight. Specifically, we are recommending that the DCFO (1) ensure that current FFMIA process guidance is updated, as needed, to provide additional detailed information required for the submission of remediation plans; (2) continue to develop the expertise necessary to allow for a more detailed assessment of remediation plans for reasonableness and effectiveness of planned corrective actions; and (3) seek opportunities to ensure that conditions that allowed for existing material weaknesses are addressed and remedied throughout Treasury, thus helping to reduce or eliminate future occurrences.

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The DCFO's response to our draft report concurred with our finding and recommendations. The DCFO implemented two of the three recommendations, and will implement the final recommendation when any new instances of FFMIA non-conformance occur. Their response is summarized and evaluated in the body of this report and included, in detail, in Appendix 2, Management Comments.

## Background

Agencies are required by 31 U.S.C. 3512, the FFMIA, to implement and maintain financial management systems that substantially comply with Federal financial management system requirements, applicable Federal accounting standards, and the SGL. To help accomplish this objective, the head of an agency is required to develop a remediation plan, outlining the methodology and resources for resolving identified material non-conformances. The FFMIA also requires that an agency correct financial management system deficiencies within three years from the time the non-conformance is identified. Per FFMIA mandate, the agency head designated the DCFO to be responsible for bringing the agency's financial management systems into compliance. The FFMIA also requires bureaus to prepare remediation plans to rectify material non-conformances. Treasury submits plans requiring longer than three years to remedy material non-conformances to OMB.

In September 2000, the OIG performed a review of Treasury's implementation of FFMIA.<sup>1</sup> In that report, we found that Treasury needed improvement in correcting and resolving deficiencies with its systems. We noted that bureaus either failed to provide remediation plans to the Department, or that the remediation plans submitted lacked information necessary to effectively implement and monitor plan progress. In addition, we identified that the Department's program to oversee and implement FFMIA was not effective.

As of September 30, 2001, five Treasury bureaus (Customs, FMS, IRS, Mint, and OCC) were not in substantial compliance with

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<sup>1</sup> Final Report on Implementation of the Federal Financial Management Improvement Act, dated September 28, 2000 (OIG-00-124).

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FFMIA.<sup>2</sup> A total of eight material instances of non-conformances were identified at these bureaus. We reviewed the remediation plans for Customs, FMS, Mint, and OCC. In March of 2002, TIGTA reported on the progress the IRS has made to remedy its material non-conformances. The following describes the instances of non-compliance for each of the five bureaus as of September 30, 2001:

- Customs – Core financial systems do not provide complete and accurate data for the preparation of audited financial statements.
- FMS – General computer control weaknesses exist at each of the data centers.
- IRS – (1) For erroneous restricted interest, current system limitations require manual computations; (2) detailed transactional data is needed to support custodial financial reporting of revenue; and (3) improvement is needed for the annual financial statement preparation and audit processes.
- Mint – (1) Administrative control problems exist in conjunction with operating its Consolidated Information System; and (2) weaknesses exist in the system security area.
- OCC – Financial management systems do not comply with Federal financial management system requirements.

## Findings and Recommendations

### Finding 1 Treasury Continues To Strengthen Its Remediation Process and Oversight

The Department is providing adequate oversight to the bureaus in both the development and review of remediation plans to correct material non-conformances. The Department provided guidance on completing remediation plans and reviewed remediation plans when submitted for approval. Once the Department reviewed the corrective actions detailed in the remediation plans, it provided correspondence to the bureaus regarding any discrepancies noted. The Department can continue to strengthen its remediation process by updating current FFMIA process guidance, as necessary, to provide additional detailed information for the submission of future

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<sup>2</sup> Department of the Treasury Accountability Report, Fiscal Year 2001.

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remediation plans. The additional detail required can improve the remediation process and more fully support remediation plans.

#### Adequate Oversight For The Remediation Process

We found that the Department is providing adequate oversight for the remediation of material non-conformances in accordance with FFMIA. The FFMIA mandates an agency to submit a remediation plan when its financial systems are not in substantial compliance with Federal accounting standards, the SGL at the transaction level, or Federal financial management system requirements. The Department performs an assessment of the remediation plans submitted by the bureaus. Once the remediation plans are reviewed, the Department provides feedback to the bureaus by either concurring or not concurring with the reasonableness of corrective actions. Any discrepancies are identified in an official memorandum, and the remediation plan is returned to the bureau for revision. The Department relies on its general knowledge of the material weakness to determine if corrective actions are reasonable. Therefore, reliance is placed on the bureaus to ensure the technical proficiency of the corrective actions in a remediation plan.

The OMB coordinates with the Department on an as needed basis regarding any weaknesses or deficiencies identified in remediation plans that are submitted. In addition, the Department should continue to enhance its expertise in reviewing the reasonableness of remediation plans. Also, the Department needs to ensure that the plans to remedy the material non-conformances are designed to adequately address the weakness so that they do not recur elsewhere within Treasury.

#### Remediation Plans Did Not Contain All Required Information

The OMB's Circular A-11 requires that agencies, in their financial management plan, identify FFMIA remediation activities planned and underway, and describe the resources, remedies, interim target dates, and officials responsible for bringing systems into substantial compliance with FFMIA. The Department established and provided guidance to the bureaus regarding the preparation and submission of remediation plans consistent with OMB Circular A-11. Although the Department's guidance contained the general process that

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bureaus must follow for preparing and submitting remediation plans, the guidance does not provide the level of expected detail necessary to more effectively review human and capital resource requirements and determine how corrective actions will be validated.

Our review of the bureaus' remediation plans showed that the plans submitted by FMS and OCC completely addressed the areas required by OMB Circular A-11. However, Customs remediation plans lacked how it would independently verify that the corrective actions were completed. We also noted that Mint's remediation plans submitted for the third and fourth quarters in fiscal year 2002 did not contain budgetary funding information.

#### Established Milestone Dates

Milestone dates are required to be included in remediation plans so bureaus and the Department can track the progress in correcting material non-conformances. We found that Customs, FMS, Mint, and OCC remediation plans contained current milestone dates. The TIGTA review of the IRS' remediation plans identified no instances of missed target dates, but target dates were extended with explanation.

For Customs, milestone dates for corrective actions for the Automated Commercial Environment (ACE) and SAP were scheduled to be completed by October 2003. In February 2001, the Department issued a memorandum to OMB requesting a waiver to the FFMIA's requirement for bringing Customs' and the IRS' financial management systems into substantial compliance within three years. The OMB responded and concurred with this request. Customs anticipated that due to funding issues, further development of the subsidiary ledger, along with the implementation of SAP release 3, was needed to address the materiality of its core financial system weakness. To do this, Customs extended the milestone dates for corrective actions for ACE and SAP to October 2004, because funding for these projects was insufficient. In addition, Customs extended these milestone dates without the consent of Treasury and OMB. Also, the lack of funding may cause a delay in completing future ACE and SAP milestones. The Department needs to continue to closely monitor milestone completion dates for all remediation plans submitted by



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the bureaus. For fiscal year 2003, the Department will be placing greater emphasis on linking spending plans with remediation plans to anticipate difficulties in meeting scheduled milestones.

The *Federal Financial Management Improvement Act of 1996*, which applies to the agency Chief Financial Officer (CFO), as defined in Section 901(b) of title 31 U.S.C., is intended to:

- Provide for consistency of accounting by an agency from one fiscal year to the next, and uniform accounting standards throughout the Federal Government.
- Require Federal financial management systems to support full disclosure of Federal financial data, including the full costs of Federal programs and activities, to the citizens, the Congress, the President, and agency management, so that programs and activities can be considered based on their full costs and merits.
- Increase the accountability and credibility of Federal financial management.
- Improve performance, productivity, and efficiency of Federal Government financial management.
- Establish financial management systems to support controlling the cost of Federal Government.
- Build upon and complement the CFO Act of 1990 (Public Law 101-576; 104 Stat. 2838), the Government Performance and Results Act of 1994 (Public Law 103-356; 108 Stat. 3410).
- Increase the capability of agencies to monitor execution of the budget by more readily permitting reports that compare spending of resources to results of activities.

In addition, FFMIA mandates that each agency implement and maintain financial management systems that comply substantially with Federal financial management system requirements, applicable Federal accounting standards, and the SGL at the transaction level.

The development and implementation of remediation plans is critical to Treasury's overall financial management objectives. Failure to develop and implement adequate remediation plans may result in the Department's inability to remedy its FFMIA related financial system deficiencies; the continued reporting of material weaknesses in bureaus' financial statements; and the continued use of non-FFMIA compliant accounting procedures which do not accurately portray financial results of the Federal Government.

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## **Recommendations**

The DCFO should:

1. Ensure that current FFMIA process guidance is updated, as necessary, to provide additional detailed information required for the submission of remediation plans (i.e., the level of expected detail necessary to effectively review the need for resource requirements (human and capital) and how corrective actions will be validated).

Management Response:

Should any new instances of FFMIA non-conformances arise, the DCFO will ensure that appropriate and comprehensive guidance is issued and acted upon.

OIG Comment:

The OIG agrees that the steps the Department will take satisfies the intent of the recommendation.

2. Continue to develop the expertise necessary to allow for a more detailed assessment of remediation plans for reasonableness and effectiveness of planned corrective actions.

Management Response:

Because remediation plans change due to availability of funding and changes in systems development priorities, the DCFO ensures that revisions are properly supported and that sufficient interim milestones have been included in the revisions. The DCFO requests additional information for these revisions as part of their quarterly evaluation of progress reports from the bureaus. In addition, the DCFO continues to improve its oversight by ensuring that activities identified in action plans coincide with spending plans.

OIG Comment:

The OIG agrees that the steps taken by the Department satisfies the intent of the recommendation.

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3. Seek opportunities to ensure that conditions that allowed for existing material weaknesses are addressed and remedied throughout Treasury, thus helping to reduce or eliminate future occurrences.

Management Response:

Various parts of the DCFO organization are actively involved in enforcing front-end controls to minimize the possibility of additional instances of non-compliance with FFMIA. For instance, the DCFO tracks bureau progress in resolving routine audit findings and recommendations in all areas to ensure that routine issues are resolved to the extent possible before they become more significant problems. The DCFO staff also works closely with both bureau and departmental systems security offices to help precipitate needed improvements in this critical area.

OIG Comment:

The OIG agrees that the steps taken by the Department satisfies the intent of the recommendation.

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I would like to extend our appreciation to the Department for the cooperation and courtesies extended to my staff during the review. If you have any questions, please contact me at (202) 927-5007, or Joseph Maranto, Audit Manager, at (202) 927-5014.

/s/

Edward G. Coleman, Director  
Office of Information Technology Audits

The overall objective of this review was to determine whether remediation plans were developed and the milestones established to resolve material non-conformances were achieved. This objective was accomplished by evaluating whether (1) the bureaus established remediation plans for all its material non-conformances in accordance with all laws and regulations; (2) the bureaus made sufficient progress in meeting milestones prescribed in its remediation plans; and (3) the Department is monitoring the status of FFMIA remediation plans for timeliness for all materially non-compliant bureaus.

We evaluated the remediation plans submitted to the DCFO by Customs, FMS, Mint, and OCC. In addition, we relied on the audit work performed by TIGTA for IRS' remediation plans. The fieldwork for this report was performed at the bureaus and at the departmental offices in the Washington, DC, area during October and November 2002.

We conducted our audit in accordance with generally accepted government auditing standards.

Appendix 2  
Management Comments



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

NOV 26 2002

**MEMORANDUM FOR EDWARD G. COLEMAN**  
**DIRECTOR, INFORMATION TECHNOLOGY AUDITS**

**FROM:**

*B. Hudson*  
Barry K. Hudson  
Acting Deputy Chief Financial Officer

**SUBJECT:**

Draft Audit Report – Treasury’s Continued Progress  
In Achieving Compliance With FFMIA

Thank you for the opportunity to provide comments on the draft audit report. As a starting point, I would like to thank you and your staff for the professionalism and constructive approach taken during this review.

With respect to the three recommendations associated with the report’s one finding, we agree that we can fine tune our on-going oversight practices, and already have incorporated suggestions from the draft report, with no further corrective actions being required. Specific comments and explanations are discussed below.

**Recommendation #1** – Ensure that current FFMIA guidance is updated as necessary to provide additional detailed information required for the submission of remediation plans (i.e., the level of expected detail necessary to effectively review the need for resource requirements (human and capital) and how corrective actions will be validated.

**Management Comment** – Admittedly, we have not updated our guidance to non-compliant bureaus since we began our oversight program a number of years ago. However, the overall guidance we have provided has included relevant portions of the Act, a document explaining our FFMIA process (which includes deliverables) and face-to-face meetings to ensure understanding of our expectations. We believe it is also relevant that both the remediation plans from and our working relationships with IRS and Customs, the only bureaus with actual financial management issues associated with FFMIA, have matured to a point where our focus is on progress and oversight, rather than guidance. This is the same basic situation for FMS and the Mint, which have been deemed non-compliant for systems security shortcomings, rather than financial management issues. In these latter cases, progress toward resolving security shortcomings has advanced to a point where closure of material weaknesses and the corresponding attainment of compliance with FFMIA is anticipated prior to the end of FY 2003.

With respect to the validation of corrective actions of remediation plans, our approach takes several forms. First, we use our best efforts to ensure that the various actions defined in the plans actually address the underlying causes of the non-compliance. We

## Appendix 2 Management Comments

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then monitor the attainment of milestones by the target dates and strive to ensure that any potential slippages are identified promptly and remedied to the extent possible. These actions are complemented by our regular involvement (generally monthly) in Executive Steering Committee meetings at the IRS, which focus on systems development and implementation activities, as well as on various related internal control and audit follow-up issues. We also review the results of related audit work performed by both Inspectors General and GAO. For financial management issues, the ultimate validation is whether or not systems are actually developed and implemented in working order. For systems security issues, our validation includes briefings by bureau management control personnel responsible for tracking and scrutinizing corrective actions taken, close liaison with bureau and departmental security personnel in CIO organizations, and regular communications with representatives of the audit community.

The above comments notwithstanding, should any new instances of FFMIA non-compliance arise, we will ensure that appropriate and comprehensive guidance is issued and acted upon.

**Recommendation #2** - Continue to develop the expertise necessary to allow for a more detailed assessment of remediation plans for reasonableness and effectiveness of planned corrective actions.

**Management Comment** – As mentioned above, remediation plans from all bureaus are relatively mature from the standpoint of our having made sure that the corrective actions reasonably address the known shortcomings. Having said that, the plans also have changed over time, due to such issues as fluctuations in the availability of funding and changes in systems development priorities. In these cases, we have ensured that revisions are properly supported and that sufficient interim milestones have been included in the revisions. We request additional information on such changes as necessary as part of our quarterly evaluation of progress reports from the bureaus. As another example of continuing improvement and modification of our oversight, we recently expanded our activities to include greater scrutiny being applied to the linkage of action plans with spending plans.

**Recommendation #3** – Seek opportunities to ensure that conditions that allowed for existing material weaknesses are addressed and remedied throughout Treasury, thus helping to reduce or eliminate future occurrences.

**Management Comment** – Although the oversight of known FFMIA problems is a separate activity, various parts of the DCFO organization are actively involved in enforcing front-end controls to minimize the possibility of additional instances of non-compliance with FFMIA. The 3-day close project and the accelerated close of annual financial statements have served to improve financial management in the bureaus on an on-going basis. Moreover, our past involvement with JFMIP has led to the development and availability of vendor financial systems/applications which meet all relevant federal requirements. When bureaus seek to acquire and implement any of those systems/applications, we are closely involved in such efforts from start to finish. On a

## Appendix 2 Management Comments

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different level, we also track bureau progress in resolving routine audit findings and recommendations in all areas to ensure that routine issues are resolved to the extent possible before they become more significant problems. Finally, and as alluded to earlier, DCFO staff work closely with both bureau and departmental systems security offices to help precipitate needed improvements in this critical area.

In conclusion, we appreciate the complimentary and constructive comments offered in the draft audit report and will ensure that the report's suggestions are incorporated into our continuing program to resolve all FFMIA challenges as expeditiously as possible.

cc: Teresa Ressel  
Jim Lingebach  
David Epstein  
Jim Angel

**Office of Information Technology Audits**

Edward G. Coleman, Director, IT Audits  
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The Department of the Treasury

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Office of Inspector General Budget Examiner